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DIRECTORATE OF INTELLIGENCE

23 July 1985

China: Premier Zhao's Visit to Western Europe [Redacted]

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Summary

Premier Zhao Ziyang used his visit to Western Europe in June primarily to promote trade and to stimulate economic competition between the European countries, Japan, and the United States for sales to China. Zhao signed several economic cooperation agreements, including one with the UK on the peaceful use of nuclear energy. A binding agreement between China and the West German company, Kraftwerk Union, for the sale of two nuclear reactors, however, remains to be negotiated, despite the signing of a "memorandum for nuclear power cooperation." [Redacted]

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Zhao also expressed China's standard strategic concerns, urging West European countries to press the superpowers to reduce the arms race, especially in space. Although Beijing has not directly criticized the Strategic Defense Initiative (SDI),

This memorandum was prepared by [Redacted] Foreign Affairs Branch, China Division, Office of East Asian Analysis. Research was completed on 8 July 1985. Comments and questions are welcome and should be addressed to Chief, China Division, OEA, [Redacted]

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China shares some British and French concerns about the adverse impact SDI could have on its limited nuclear deterrent. While reaffirming China's "independent" foreign policy stance, Zhao avoided political controversy by sticking to standard Chinese expressions of support for a "united and strong" Europe and echoing European concerns for peace. [redacted]

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China's Strategic Interests in Western Europe

Premier Zhao reaffirmed China's strategic interest in a "unified and strong" Western Europe able to "safeguard peace and stability." Chinese concerns, however, tug Beijing in conflicting directions. On the one hand, Beijing favors a strong, unified NATO on the Soviet western flank to keep Soviet attention focused on Europe rather than China. China hopes that greater West European cooperation on security matters within NATO will strengthen NATO's conventional forces and lessen Western Europe's dependence on the US nuclear guarantee, which proved so divisive during the INF deployments. [redacted]

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At the same time, Beijing wants Western Europe to exert a greater moderating influence through NATO on some US policies that China believes aggravate the arms race. While in Western Europe, Premier Zhao specifically warned against the spread of the arms race into outer space. Unlike the US deployments of intermediate range missiles in Europe which China tacitly supported, China fears that the US Strategic Defense Initiative and a Soviet SDI deployed in response could neutralize China's limited nuclear deterrent. So far, however, China has not directly criticized the US Strategic Defense Initiative in public. Instead, Beijing has publicized West European concerns about the US program as a vehicle for its own concerns in order to avoid echoing harsh Soviet criticism. [redacted]

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Emphasis on Trade: Modest Results

Although Zhao touched on strategic themes, he chose mainly to emphasize trade and technology issues during his visits to the United Kingdom, West Germany, and the Netherlands and to avoid political controversy. A Renmin Ribao editorial in early June said that Zhao's visit reflects a "major policy decision" by China "to establish a long-term, stable cooperative relationship" with Western Europe. [redacted]

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[redacted] China wants to increase trade with Western Europe in order to reduce its overdependence on trade with the United States and Japan. [redacted]

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Western Europe is China's fourth largest trading area after

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Hong Kong, Japan, and the United States. Sino-West European trade, however, grew by only 10 percent in 1984 compared with a 27-percent growth in Sino-US trade. Zhao told the Europeans that to become more competitive with Japan and the United States they must do more in the areas of financing, economic assistance, and technology transfer--a familiar refrain to the Japanese and the Americans. Unlike last year, he mentioned COCOM restrictions on technology exports to China only in passing. [redacted]

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Sino-British trade grew the most of the West European countries in 1984 (27 percent), spurring British optimism about the Chinese market. No new deals, however, were concluded during Zhao's visit; the economic cooperation agreement that was signed is little more than a declaration of intent. The agreement on the peaceful use of nuclear energy signed between the UK and China is a prerequisite which allows British companies to bid competitively for Chinese nuclear energy projects. The agreement calls for safeguards by both sides only if cooperation is extended to sensitive areas. [redacted]

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Despite Germany's large share of Sino-West European trade (30 percent in 1984), Sino-West German trade increased by only 2 percent in 1984. To help stimulate greater growth, China and West Germany signed agreements on the avoidance of double taxation, financial cooperation, and a 10 year extension of the 1979 economic cooperation agreement. [redacted]

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China and Kraftwerk Union (KWU) of West Germany signed a "memorandum on nuclear power cooperation" which calls for the sale of four 1000 megawatt nuclear reactors. The memorandum, which was mainly a public relations gesture, is not binding on China and only provides a framework for further negotiations. KWU hopes to sell two nuclear reactors for the Sunan plant outside of Shanghai and increasing amounts of technology to help China build two more reactors later. Details, however, need to be ironed out on a formidable array of terms, such as compensation, financial arrangements, and special credits, before a contract can be signed. [redacted]

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In an attempt to offset some of the costs of the nuclear reactor purchases, for example, China has offered to store spent nuclear fuel from West Germany. [redacted]

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[redacted], Potential storage in China of nuclear wastes, however, will face considerable opposition in West Germany, especially from antinuclear groups such as the Green Party that are likely to oppose the transportation of nuclear wastes through German towns and harbors. While in Germany, Zhao tried to reassure the Greens that China would only store spent nuclear fuel rods, not nuclear wastes. [redacted]

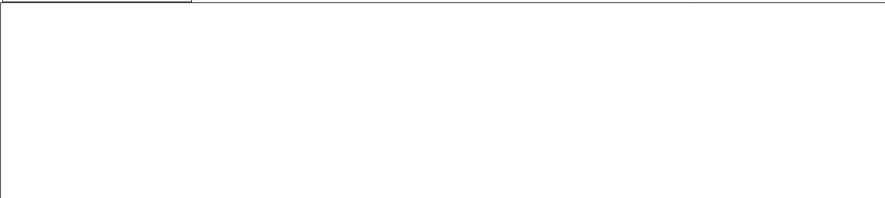
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Premier Zhao's stop in the Netherlands produced little of substance. The visit was intended mainly as a goodwill gesture to underscore improving relations since the Dutch decision over a year ago to cancel the sale of additional submarines to Taiwan. Bilateral trade did grow by 9 percent last year, partly as a result of that decision, and is expected to grow by a similar amount in 1985. Only a minor agreement on the reciprocal encouragement and protection of investments was signed during the visit, but the Dutch hope to conclude a nuclear energy cooperation accord of their own with China sometime later this year



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